

## **HISTORICAL DEVELOPMENT OF LIFE INSURANCE**

**ABSTRACT:** The origins of certain forms of property and life security date back to a very distance past. The beginnings of commodity and monetary relations and class society mark the beginning of insurance activities as well. The basic function of insurance has not changed throughout its history and it amounts to the property and individual protection. Life insurance, as a special type of a personal insurance, occupies an important place in insurance activities today. Insurance premiums keep growing in the global market and so does the share of life insurance in the total premium structure. As early as in 1996, it constituted 57%, while the others, non-life insurances, constituted 43%. This paper treats the historical development of life insurance, from the very origins of this type of insurance to this very day.

*Key words: life insurance, insurance policy, insurance contract*

### **The Period of Slavery**

Some forms of security in case of death appeared for the first time in the very remote past. As early as in 2,500 BC, in ancient Egypt, stone builders

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(masons) organized a society for the collection of funds for the payment of treatment and funeral expenses for their members.<sup>1</sup>

Around 400 BC, the so-called funeral societies appeared in Greece. Members of those societies paid contributions, which the society used to help the family of any deceased member by bearing the expenses of his funeral and helping the family afterwards as well. There were three types of such societies: Thiasoi, which was strictly religious, with its own objectives; Eranoi, the purpose of which was to collect aid for their members, but which also had a social and religious purpose, and Orgeones, which was engaged in celebrations and other special ceremonies.<sup>2</sup> In addition to their religious purpose, those societies were also engaged in helping the funeral preparations for their deceased members. They primarily provided grave sites for their members, but they also helped their families by lending them money or goods. Although those societies were not founded for insurance purposes primarily, but for religious ones, the form of actions taken by society members towards the families of the deceased was very similar to mutual life insurance.

There were similar societies in ancient Rome, which provided aid for their members. In the case of a member's death, they paid certain sums of money on the basis of the membership fees that the deceased paid to the society – first periodically and later on a monthly basis. The initial purpose of the establishment of such funeral and aid societies was strictly religious. Later, those societies became merely funeral ones and their goal changed into the provision of funeral expenses. In the beginning, they only provided a grave site and were engaged in the funeral rite, but later, instead of arranging the funeral, they started giving sums of money to the close relatives of the deceased, which amounts were known as *funeraticium*.<sup>3</sup> There were three types of such societies in Rome: the civilian, veteran and military ones. The civilian societies were initially religious and, as of the 3<sup>rd</sup> century AD, they became professional. Members of those societies were craftsmen in various fields, such as blacksmiths, builders, bakers, jewellers, etc. They paid monthly amounts serving to create a fund from which money for funeral expenses, i.e. *funeraticum*, was set aside.

The societies of Roman veterans were similar to civilian ones, but their members were ex-soldiers – the war veterans from the army. In time, such societies were banned. Roman military societies consisted of soldiers who were

<sup>1</sup> Petrović, Z., Mrkšić, D., (2005). Životna osiguranja (Life Insurance Types), Belgrade, Pravna biblioteka, p. 9.

<sup>2</sup> Ogrizović, D., (1985). Ekonomika osiguranja (Insurance Economics), ZOIL, Sarajevo, p. 103.

<sup>3</sup> Trenerry F. C., (1926). The Origin and Early History of Insurance, London, p. 176.

in active service. Those societies were not religious. They paid a certain sum of money for soldiers in various situations: in the case of death, if a soldier turns a certain number of years or in some other events, such as deployment, promotion, dismissal from service or when a soldier becomes a veteran.

A contractual life insurance was also present in ancient Rome, but this insurance was not based on a contract as we know it today – with an established insurance premium and requiring a precise mathematical calculation in the assessment of risk and the establishment of a premium – it was just a short-term contract covering the life of a merchant who is to go on a dangerous journey.<sup>4</sup> The Romans were familiar with the subject of death and longevity, they were skilled in mathematics and finances and had a table of values founded on the real experiences of mortality. There are also some testimonies in the Roman law to contractual provisions in the case of death, whether of a contracting party or of a third person, which even date back to the period before the division of the Roman Empire into the Western and the Eastern one and continue into the period of the Eastern Roman Empire.<sup>5</sup>

The aforesaid examples indicate that, due to their economic justifiability, it was very early, as early as in the first societies where commodities were exchanged, that the concept of division of risk among group members was adopted. Although those risk division techniques resembled insurance, the modern life insurance business was to start much later.<sup>6</sup>

## **The Middle Ages**

The conception of an optimal way for investing money and increasing investments has led to an intensive development of life insurance. This is how the annuity obtained for the invested money was developed.<sup>7</sup> In 1308, on the basis of a concluded contract, the archbishop of Bremen paid an amount of 2,400 livres to the abbot of St Denis, thus becoming entitled to a semi-annual annuity of 400 livres – it was for as many as 18 years that he enjoyed that right. That confirms that contracts of the time had nothing to do with the age of annuity beneficiaries. Such contracts were often concluded in medieval times and they sometimes applied to two people (lives) or even more.

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<sup>4</sup> Petrović, Z., (2006). *Osiguranje života i srodna osiguranja (Life Insurance and Related Insurance Types)*, Belgrade, Vojnoizdavački zavod, p. 9

<sup>5</sup> See Trenerry, op. cit., p. 227.

<sup>6</sup> Vaughan, E., Vaughan, Th. (2000). *Osnove osiguranja (Essentials of Insurance)*, Mate, Zagreb, p. 46.

<sup>7</sup> Ogrizović, D., op. cit., p. 120.

The first real life insurance policy, which was based on marine insurance principles, was issued by a group of marine insurers in London, on 18th June 1583, to a person named Wiliam Gybbons.<sup>8</sup> The policy was for one year and in the amount of 400 pounds.<sup>9</sup> Such insurance was common during the 16<sup>th</sup> century. The policy was drawn up and signed by Richard Candler, a registrar of the insurance chamber. The insurant, Gybbons, died just before the contracted year expired, so the insurers paid the insured sum to the insurance beneficiary, Richard Martin.

In the 17<sup>th</sup> century, at the request of Cardinal Mazarin, Lorenzo de Tonti made a plan to put French finances on their feet by creating an association in which each member was obliged to pay a certain sum. The sums paid by all the members served to create a capital which, at the moment of the death of a member, was distributed to the surviving members in the form of an annuity or capital. If no member should survive, the capital would go to the state. Those societies, which eventually spread in many European countries, were named *tontines* – after De Tonti, who conceived them. They did not have the true life insurance content, but they achieved a similar purpose in the long run. Their development boosted the advancement of the insurance system and the application of mathematics in the insurance technique.

The first state tontine was founded in France in 1689 and the second one was established in England a little later, in 1692. However, life insurance was still banned in most countries at the time.

The establishment of the life insurance technique was primarily enabled by mathematical inventions, such as the definition of an annuity with accurate calculations, which was established by Dutch mathematician and statesman Jan de Witt (1625–1672), the theory of large numbers, formulated by Jakob Bernoulli (1654–1715) and, of course, the setting up of the first mortality tables by Caspar Naumann (1648–1715). The first official mortality tables, which referred to the city of Breslau (Wroclaw), were published in 1693, which was the official beginning of the development of insurance in the form as we know it today.<sup>10</sup>

<sup>8</sup> Petrović, Z., op.cit., p. 10.

<sup>9</sup> See, Raynes, H. E., (1964). *A History of British Insurance*, second edition, Sir Isaac Pitman and Sons Ltd., 1964, reprint 1968, London, p. 113.

<sup>10</sup> Petrović, Z., Petrović, T., (2003). *Osiguranje života (Life Insurance)*, Belgrade, Glosarijum, p. 7.

## **The Beginning of the Development of Modern Life Insurance**

The first modern life insurance company in Europe was founded in London in 1699 under the name: The Society of Assurance for Widows and Orphans. The company charged the same premium from all of its members – insurants. Later, in 1756, the Society for the Equitable Assurance on Lives and Survivorships introduced a new element – premiums that differed depending on the insurant's age.<sup>11</sup>

The first life insurance company in the USA was founded in 1759 under the name: Corporation for the Relief of Poor and Distressed Presbyterian Ministers and of Poor and Distressed Widows and Children of Presbyterian Ministers. This company has been active ever since and today it is the world's oldest life insurance company.<sup>12</sup>

## **Development of Life Insurance in Serbia**

The first forms of insurance in these regions were mentioned in the statutes of towns at the Adriatic Littoral, namely in three sources: The Vinodol Statute of 1288, Dušan's Code (Emperor Stefan (Stephen) Dušan) of 1349 and 1354 and the Poljica Statute of 1440. The characteristics of these codes are expressed in collective responsibility.<sup>13</sup> There had practically been no insurance law in the regions of Serbia and Montenegro until they became independent of the Ottoman rule. Even later, the development was very slow in the beginning. The Serbian Civil Code of 1844 mentioned insurance in two articles only (798 and 799) and the General Property Code of 1888, which was in effect in Montenegro, contained some general provisions on insurance only. However, despite the fact that it regulated insurance in a rudimentary framework only, the Serbian Civil Code envisaged some important principles of insurance, such as the influence of the insurant's guilt on the inflicted damage and the consequences of a case already occurred on insurance.<sup>14</sup>

Other insurance laws were enacted later, e.g., in 1892, the Law on Insurance Companies, the provisions of which referred to foreign insurance companies only, and, in 1898, the Law on Stock Companies, which regulated the business of Serbian insurance companies.

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<sup>11</sup> Petrović, Z., op. cit., p. 12.

<sup>12</sup> Vaughan, E. Vaughan, Th., op. cit., p. 47.

<sup>13</sup> Čolović, V., (2010). *Osiguravajuća društva (Insurance Companies)*, Institut za uporedno pravo (Institute for Comparative Law), Belgrade, p. 28.

<sup>14</sup> Petrović, Z., Mrkšić, D., op. cit., p. 11.

Insurance in general, including life insurance, is an institution of a later age in these regions. Here, it was foreigners that carried out the first insurance activities.<sup>15</sup> That was the reason why the aforesaid law of 1892 referred to the business of foreign insurance companies only. Serbian employers were just agents of foreign insurance organizations and they derived considerable benefits from insurance. The first insurance in Belgrade was mentioned in 1839, when a man named Zuban had his house insured. Several days later, his house burnt down in a fire, and an agent of the Trieste Insurance Company, which was situated in Zemun and where that insurance had been taken, paid out the insured sum of 175 thalers immediately.<sup>16</sup>

The first insurance institutions to appear were the branch offices of foreign insurance companies. The first such an office was established by Anker in 1861, to be followed by the office of the Trieste General Insurance Company in 1867, then of Nord British and Mercantile in 1874, Greshem in 1877, New York in 1886. It was foreign insurance companies that had had an exclusive monopoly in the insurance business until the very end of the 19<sup>th</sup> century, when, in 1897, the first Serbian insurance company – Beogradska zadruga (Belgrade Cooperative) – was formed. Most of the business activities were conducted in Belgrade and the main insurance business was life insurance and insurance against fire. Then, in 1902, another foreign company, Rossiya, appeared, to be followed, in 1906, by another domestic company – Srbija.<sup>17</sup> In time, the competition between Serbian and foreign insurance companies became more intensive.<sup>18</sup>

One of the main reasons for this slowness in the foundation of Serbian insurance companies was the lack of experts. Although the first companies with domestic capital were established in Serbia towards the end of the 19<sup>th</sup> century, it was only in the period between the two world wars that they became affirmed. Those companies, although formally Serbian, were nevertheless mostly connected with foreign insurance companies.<sup>19</sup>

Between the two world wars, a concession-based system for insurance activities was applied in the Kingdom of Yugoslavia.<sup>20</sup> That meant that only a company that had been granted a work licence was allowed to engage in the

<sup>15</sup> Petrović, Z., op. cit., p. 14.

<sup>16</sup> See Srbske novine of 18th January 1839

<sup>17</sup> Čolović, V., op.cit., p.29.

<sup>18</sup> See Milenković, V., (1932). *Ekonomska istorija Beograda (Economic History of Belgrade)*, Belgrade, p. 113–114.

<sup>19</sup> Petrović, Z., Petrović, T., op. cit., p. 8.

<sup>20</sup> On life insurance in the period between the two world wars see: Lukić, Ž., *Ugovor o osiguranju života (Life Insurance Contract)*, Belgrade, 1929. and D. Ogrizović, op. cit.

insurance business. However, the system was very liberal and it was comparatively easy to get a licence, so, before the Second World War, there were twenty-eight insurance companies in Yugoslavia.

Not until 1st March 1937, when the Regulation of the Supervision of Insurance Companies was enacted, were there any regulations on relations between insurance companies and the state. Thus it happened that insurance companies should collapse because they had entered some risky business, thereby leaving the interests of their insurant totally unprotected. The Regulation mostly applied to the issue of property in which funds from the payment of insurants' savings premiums into life insurance were invested. It was itemized where it was possible the premium reserve to be invested. The Regulation banned insurance companies from freely handling and managing funds obtained from insurants. Expropriation and encumbrance was possible only upon the approval of competent state authorities. All the assets acquired on the basis of collected savings premiums had to be kept separately from the other assets of an insurance company. They were to be used exclusively for the settlement of liabilities towards insurants on the basis of life insurance. Besides, on the eve of the Second World War, Yugoslavia was almost at the bottom of the European list in terms of insurance development.<sup>21</sup>

Upon the end of the Second World War in 1945, or rather, immediately after the liberation of Belgrade in 1944, a decision on the confiscation of property of public enemies was made, whereby all the insurance companies owned by the Germans ("Dunav", "Weinerstädische") were annexed to state insurance companies. In the Federal Republic of Yugoslavia there was a factual monopoly in the insurance activity, because the State Insurance Bureau had the position of the only insurance company in the state. It was only in 1961 that reforms ensued and the State Insurance Bureau system was abandoned and replaced with a system of insurance bureaus and insurance communities, whereby insurance business and organization was decentralized. The next reform of 1967, equalized the position of insurance and reinsurance organizations with the position of other business entities. Several other laws in the field of insurance were subsequently enacted: the Law on the Bases of Property and Person Insurance System of 1976, of 1990 and, finally, of 1996.<sup>22</sup>

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<sup>21</sup> See for more details: Tasić, A., *Osnovi osiguranja* (Insurance Bases), Third Edition, „Privredno finansijski vodič”, Belgrade, 1976, p. 102–104.

<sup>22</sup> On the development of insurance in our country see: Šulejić, P., (1997). *Pravo osiguranja* (Insurance Law), Pravni fakultet (Faculty of Law), Belgrade, pp. 35–45.

Although in the period of the relative economic and political stability of the Yugoslav society, from 1952 to 1992, the insurance business underwent dynamic development, life insurance regarded as the most perfect form of savings, never had the same effects as the other types of insurance. The main reason for that was a permanent drop in the value of the national currency, so that type of insurance was not regarded by insurants as profitable.<sup>23</sup> The only way to preserve the value of giving was to charge premiums in a foreign currency, which domestic insurance companies were not allowed to do. It was foreign insurance companies that profited most from this situation.

## Conclusion

Upon disintegration of the Socialist Federal Republic of Yugoslavia and the formation of the Federal Republic of Yugoslavia, more than 40 new insurance and reinsurance companies were founded in the region of Serbia and Montenegro and they were established mainly as stock companies and mutual insurance companies. The economic blockade measures taken in 1992 marked the beginning of the most difficult period for insurance and reinsurance business in the recent history of former Yugoslavia, viewed from the aspect of insurance and reinsurance function.<sup>24</sup> With the enactment of the Law on Property and Personal Insurance in 1996, the situation slightly improved, but some problems have not been eliminated to this very day. The Insurance Law enacted in 2004, which is still in effect, marks a new stage in the development of insurance companies in Serbia. An intensive economic growth and the improvement of the living standard in the years to come should lead to a more intensive development and increase the life insurance scope.<sup>25</sup>

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<sup>23</sup> Petrović, Z., op. cit., p. 18.

<sup>24</sup> Čolović, V., op.cit., p. 33.

<sup>25</sup> See Žarković, N., (2005). Tržište osiguranja Srbije i Crne Gore u 2004. godini (Insurance Market in Serbia and Montenegro in 2004), *Revija za pravo osiguranja*, (1–2), p. 37–40.



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### ***Istorijski razvoj životnog osiguranja***

#### ***R e z i m e***

Prvi počeci nekih oblika obezbeđenja imovine i života sežu u daleku prošlost. Sa pojavom robno-novčanih odnosa i klasnog društva počinje se sa obavljanjem delatnosti osiguranja. Kroz razvoj osiguranja, njegova osnovna funkcija se ne menja, ta funkcija ostaje zaštita imovine i lica. Osiguranje života, kao naročita vrsta osiguranja lica, danas zauzima značajno mesto u delatnosti osiguranja uopšte. Premije osiguranja na svetskom tržištu stalno rastu, kao što se i sam udeo životnih osiguranja u ukupnoj strukturi premija sve više povećava. Još 1996. godine, zauzimao je 57%, dok su ostala neživotna osiguranja zauzimala 43%. U ovom radu baviceemo se istorijskim razvojem osiguranja života, počevši od samog nastanka ove vrste osiguranja do današnjih dana.

*Ključne reči: osiguranje života, polisa osiguranja, ugovor o osiguranju.*

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